Presentation transcript

1 June 2022

INTERIM RESULTS

Nwabisa Piki

Good morning. Thank you for joining us for Barloworld's interim results for the six months to the end of 31 March. Today we will take you through our Group highlights led by our Group CEO, Mr Dominic Sewela. He will be followed by Miss Nopasika Lila to take us over the financial overview. We will then go into our Industrial Equipment and Services business, and we will have Equipment Southern Africa first from Mr Emmy Leeka. And then we will have Mr Quinton McGeer on Equipment Eurasia. That will be followed by our Consumer Industries Ingrain where Chris Wierenga will take us through their highlights, followed by our Car Rental & Avis Fleet from Miss Ramasela Ganda. After that we will have a strategy outlook section, whereafter we will also take questions from Mr Dominic Sewela and his team. So, without further ado, I would like to call Mr Dominic Sewela onto the stage.

Dominic Sewela

Thank you, Nwabisa. Good morning, ladies and gentlemen. I am thankful for the opportunity to present Barloworld's interim results despite the many challenges through which these have been achieved. I would like to start by emphasising what remains at the centre of our business, our people. We continue to intentionally put the safety of all our employees at the forefront. This applies to physical, social, psychological in terms of mental wellness, and safety, among others.

February took an unexpected turn as the conflict between Russia and Ukraine began. The wellbeing of our employees is of utmost importance in Russia as well. We also remain committed to the communities in which we operate. April also brought unforeseen events with floods that devastated KZN, Eastern Cape and Mozambique region. In our country over 400 people have lost their lives. Mozambique death toll was reported to be over 50 people.

A number of our employees were impacted within the relevant branches. This did not go unseen Barloworld ensured that we take various initiatives like providing water, temporary accommodation to try and alleviate the pain that our employees suffered. As a Group, 230 employees, about 171 in South Africa, 64 in Mozambique, were directly impacted. Support was given, as I said, by food parcels, temporary accommodation, drinking water and so on.

We continue to set and measure ESG related targets, therefore ensuring that we remain environmentally responsible corporate citizen. These flags in these areas alone are an indication of how climate change can affect us all. I must say something to note. We have a wonderful achievement during the period. That is securing our first ESG linked loan to the value of R1 billion, ensuring that ESG is at the heart of our business. As part of governance initiatives our board continues to monitor the capacity of our directors, regularly assessing where we need fresh skills and ensuring a limited risk, particularly when it relates to over-boarding.

Then from a safety point of view, as you can see from the graph, if you look at the first half of 2017, lost time injuries were about 88 people. We decided to reflect lost time injury because it is about people as opposed to just talking about frequency rate. We do publish frequency rate. But you can see the decline because of the focus. Now we are sitting at about 22 people. Having had 22 people is hurting too many people in our organisation. I think what we have done as leaders and managers is to put these in our scorecard and have visible felt leadership to ensure that we eliminate anything like near misses that could hurt people. But it is encouraging to see that the trend towards zero harm is on the path.

Just to give you total Group highlights, I do not want to spend too much time here because I want to make sure I give Ramasela ample time to give you her part of the business. She has done well over and above others, but it is important to note revenue is down at a Group level. This is largely because we sold motor retail. If you take that out, we would be up 5%. Strong EBITDA which is up 12%, incredible improvement on HEPS, 109%. Even on a normalised basis we are up 95.4%. When you look at the net debt position it is high, and this speaks to the fact when you look at the fleeting in Avis, also the big order book both in Equipment Eurasia as well as Southern Africa, it was important that we fleet up. I think Chris will also speak around funding of maize. I am comfortable that in the second half we should see a conversion of the bulk of those into orders.

As I have said, we have had the beginning of a war on the 24th of February. And that translated to us taking an impairment of $68 million, which is about 31.6 cents per share in terms of basic earnings per share. I think when you look at continuing operations you are all aware that Avis is going to be exited one way or the other, whether it be through unbundling or sale. We also have sold Logistics. There are a few remnants of it still left.

So, on a continuing operation it is pleasing to see that revenue is up 13%, EBITDA 20% up, HEPS 78%, and normalised HEPS about 61.5%. And you can see the decrease being magnified largely because it is purely the continuing operations at 82.9 cents per share. I am also pleased that the board notwithstanding the challenges, COVID, floods, unrest, now the war in Ukraine, we still believe the business is well placed to pay a dividend of 165 cents. I am going to hand over to Nopasika to take you through the numbers. Thank you.

Nopasika Lila

Thank you, Mr Sewela. Good morning, ladies and gentlemen, and welcome to the Barloworld interim results for the period ended 31 March 2022. As I have done in the past, before going into the numbers it is important to set the scene so that one understands the financial statements better and some of the key events that have taken place. I will start with Motor Retail. You will recall that on the 1st of June 2021 Motor Retail was equity accounted for the first time. Avis Car Rental & Lease, that business has been discontinued. Therefore, the board had approved the discontinuation from the 1st of February 2023. And lastly, Ingrain was acquired on the 1st of November 2020. Therefore the 2021 numbers only reflect five months of that business compared to the six months that we are reporting for the first quarter.

Very strong results have come through from the business, solid performance in the first quarter leading to that operating profit that we are reporting at R1.9 billion. Now, this translates to an increase of 26% when compared to the previous financial reporting period. Casting your eyes to the non-operating and capital items you will observe that there is a R1 billion write-off there. That is really the impairment that we have recorded resulting from the Russia business. We all understand the uncertainties that are at hand at the moment. But I will expand a little bit more on that at a later stage.

When we look at revenue per segment, we do notice that across all the Barloworld businesses a stellar performance has come through from the businesses. We report a total of R18.4 billion. Now, this is the revenue in Rand terms compared to the R16.1 billion that we reported in the previous year. It is important also to note that this is a 14% increase that we are reporting. Phenomenal.

Operating profit per segment again a phenomenal number coming through there. I did mention that 26% across the Group, but I'd like to focus on the divisions here. Equipment Eurasia as well as Ingrain have both reported more than 20%. This is in terms of the operating margins. As you can see on your screens looking at Equipment Southern Africa, it came through at 8.7%, again very good performance. When we do analyse and look at the reasons behind such goof operating profit, a large contribution is as a result of the cost containment measures that the business has been conscious of over the last two years starting with COVID and all the other challenges.

I move now to the non-operating. I did mention that I will spend a bit of time on this. So, we adopted the value in use approach when we calculated and measured impairment in Russia. And what did affect us is the movement or increase in the weighted average cost of capital which increased from 8.3% in 2021 to 16.3%. Now, that certainly did impact on our numbers. And overall, the reduction in the net book value of our non-current assets in Russia remains at $21.2 million.

We have had a shift in our effective tax rate, and this is largely influenced by what I have just spoken to. This is the impairment. You will notice that 129.3%. But it is important to understand that because of the accounting adjustments like impairment and others, these are non-deductible items for tax purposes. That is why you see that number escalating at that 171%. And, in our numbers it is important also to note that the reduction in effective tax rate has contributed or rather had an impact in our calculations, but more on the deferred tax component.

I move on to the discontinued operations. Dominic did mention that Ramasela has performed phenomenally well in Avis. If you look at the numbers, that R903 million profit coming from discontinued operations is largely as a result of car rental, R414 million, as well as leasing at R433 million. When you analyse the financial statements, it is also important to note that IFRS 15 says that once we start discontinuing an operation, we stop depreciating. So, from the 1st of February we did stop the depreciation at Group level. And the numbers are not indicated in terms of what the depreciation is for the entity.

An exciting story for our associate and joint ventures. We are reporting a profit of R112 million compared to the loss that we did report in the previous financial year. I was pleasantly surprised by the performance of Bartrac. We recall last year they were struggling there, but a remarkable recovery. They implemented a turnaround strategy towards the middle part of the year. And we can see the benefits that have come through there by that reported R52 million profit. And this is only the portion of Barloworld representing 50% because we own 50% of Bartrac.

On our balance sheet it is extraordinarily strong. We remain strong, but when we do look at the current assets as well as non-current assets, you will observe a reduction in those amounts. This is largely as a result of Avis Car Rental & Leasing. We have reclassified that because it is now held for sale, no longer part of operations. So, on that asset classified for sale line item you will see an increase compared to the previous financial period. And you can look at these numbers similarly on the liabilities side because you strip out on the assets, similarly on the liabilities side. So, you will observe that reclassification there.

Also, to note on the cash side there were movements largely because of the timely de-risking of our UK pension fund. We did pay £68 million which translates to R1.3 billion in the current period, as well as a special dividend of R2.3 billion. This was a good story last year, but the actual outflow of cash happened in January this period.

HEPS for the period improved. Starting in September we started at 250 cents and moved to 447 cents. And when normalised, this number moved to 465 cents. If we still had Avis in our numbers, the Group number for HEPS in fact sits at 756 cents.

We end the period with cash outflow of R1.9 billion. Now, this is driven largely by the working capital. The businesses with a good performance and growth did demand a working capital injection. Also with the UK pension fund, which is something that I did mention earlier, as well as the paydown of our bond programme. Here we have settled in excess of R1.6 billion.

Our closing net debt for the period is at R7.3 billion, but if you look at all the movements that I have spoken about in terms of cash, it is a very good number to have as a business because it is also drawing us close to our debt equity number as well.

Our strong balance sheet is clear and is reflected in the Group covenants. The net debt to EBITDA is at 1x, well in line with the requirement of 3x. And when we look at our EBITDA growth interest, that is sitting at 9.2, maintained over the past reporting period as well. Now, this is well above the 3x that is expected and required by our lenders.

As Dominic has mentioned earlier, it is really pleasing to announce that the board has declared a dividend of 165 cents per share. And this is within the 2.8x. When we look at our dividend policy of 2.5x to 3x, we remain well within that.

So, as I conclude on the numbers, I want to rest on the financial metrics. Looking at the ROE, these are real record numbers for the business. Barloworld has been striving to achieve a target of 15% on ROE, and today we're reporting 16.9%, really great work from the team. Also, on the ROIC side the business has been striving to attain 13%, and now we're reporting 14.1%, phenomenal results delivered by the business. And if I may say so myself, it is certainly sterling results. Well done to the teams. I now hand over to Emmy Leeka who will take us through Equipment Southern Africa.

Emmy Leeka

Thank you, Nopasika. Good morning, ladies and gentlemen. It gives me real pleasure to announce Equipment first half results. The division delivered a stellar result for the first half with revenue up 7.7% at R9.4 billion supported mainly by strong machine sales at 31% up, with the rental business also up by 12.5%. Looking at operating profit, as indicated by Nopasika earlier on, we were up 8.7%. We are seeing leverage coming through, and as you can see, the operating profit margin at 10.3% mainly due to the cost efficiencies.

EBITDA is up at 12%, but also, we managed to reduce and optimise our invested capital by R200 million. As from September we started increasing our working capital to fulfil the orders in the second half of 2022 just to ensure that we can be able to deliver to our customers. However, that had a negative impact in terms of our cash flow at -R263 million. I will unpack the Bartrac performance later. Ladies and gentlemen, our overall returns remain very strong with a record ROIC of 18.1%.

Now turning to equipment sales. As I have indicated, new equipment sales were up by 31% mainly driven by the mining sector, both contract mining and mining up 47%. But it is also pleasing to see construction industries starting to tick. E&T remained flat, and what drove the mining sector was more commodities. When you look at our commodity mix, normally we were averaging in terms of contribution from coal at about 40%. Now we have seen contribution from coal down at about 16% and an uplift in terms of platinum and diamonds, but also with copper contribution significantly at more than 30%.

The aftermarket contribution remained resilient at 56% compared to the prior period contribution at 59%. Beside the dilution in terms of the mix, we have seen an uplift in terms of the reported operating profit as indicated by Nopasika in terms of the cost efficiencies that we have been driving across. We will endeavour to continue to maintain our operating margin above the 10% and ensuring that we focus on double digit growth when it comes to the aftermarket, but also sustaining the cost discipline.

Now, a good story in terms of the turnaround strategy that is being implemented for Bartrac in the Democratic Republish of Congo. It is starting to yield positive results with associate income at R52 million compared to the prior reporting period loss of R104 million. We have completed the restructuring programme, focussing on making sure that our overage is good in territory, but also making sure of our diversification strategy in selling new machines to different customers. We have recently managed to be able to support and sell more machines to new customers.

The JV outlook is positive, driven by strong copper and cobalt prices on the back of the green economy. Our strategy remains the same: align to Caterpillar to double services, looking at making sure of the aftermarket double-digit growth, focussing on making sure with our customers in terms of repair options, rebuilds. We have seen a momentum building up in terms of Cat finance in territory with regards to the rebuilds as well. We have been launching new products, the GC product. That will help us as well to be able to secure and maintain our leadership position.

Cost containment is imperative. While we invest, grow and maintain efficiencies, we want to maintain our invested capital above the 2.1. And again, quite pleasing to see as part of our focus in making sure that we realise full potential for our territories, returns in terms of most of the regions above the hurdle rate, and particularly an uplift that we have seen in terms of the contribution from the greater Africa where the revenue was up 35%. As we continue to embed that culture of continuous improvement, inculcating a behaviour on the ground in terms of halving the bad and doubling the good, we are starting to see results in terms of efficiency gained.

Finally, we remain cautiously optimistic for the remainder of the period. However, as you can see, our order book is quite strong at R4.5 billion driven by mining as well as contract mining, but also see the significant improvement in terms of recovery from construction industries. We remain committed to the unlocking of value through Barloworld Business System, while we are also focusing on our employee wellness, safety and sustainable development.

On services growth talking about what we are doing in terms of delivering some of the initiatives that we have with Caterpillar on the aftermarket, particularly on rebuilds, different offerings to our customers, but also shifting most of our customers from a traditional way of doing business in terms of e-commerce, the retail customers, to what we call Cat.com. It will help us to transact easily with most of our customers. Again, we are committed to ensure that we deliver positive cash by the end of the reporting period and sustaining the current performance with regards to the returns.

In conclusion, ladies and gentlemen, our order book is strong, and we commit to deliver amidst the uncertainties as indicated by Dominic earlier on. Now I would like to hand over to Quinton to take us through Equipment Eurasia.

Quinton McGeer

Thank you, Emmy. Good morning, ladies and gentlemen. I am very pleased to share a record set of results from the Eurasia team for the first half of the 2022 financial year. Our Russian business delivered record results for the first six months, both on the revenue as well as on the operating profit line. Our Mongolian business was constrained due to the constant border closures stifling growth on the top line. From a division perspective we see improvement on all the key metrics. Our revenue was up 12%, operating profit up 20.2%, and what is very pleasing to see is that despite the growth in the top line, the division still generated a good cash flow, and linked with that also a very strong ROIC performance of 23.9%.

This slide reflects we delivered another record set of machines to the market, dominated by mining who contributed 70% to the revenue from this segment. Our aftermarket division contributed 46% towards the overall revenue contribution, very much in line with the contribution in 2021. Very pleasing to note is the fact that our aftermarket grew by 16% year on year over 2021. Our commodity mix presents a very well-balanced commodity mix with all commodities contributing towards the revenue growth, and gold leading the pack, and a very strong coal contribution in 2022.

If we look at this slide, the division is experiencing significant headwinds since the start of the war between Russia and Ukraine on the 24th of February. China's zero COVID policy has also resulted in constant border closures impacting our customers, and that also then spilled into our business. At the trading update at the end of February we reported a record firm order book of $314 million driven by a buoyant mining industry. After strong deliveries in March, the book closed at $269 million. But the impact of the sanctions post March meant that we had to cancel $150 million worth of firm orders. Profitability will be under pressure in the short to medium term, hence the impairment that we booked for the Russian business at the half year.

Our focus will shift in the short to medium term to reflect the new reality in which we operate. We will focus on supporting our employees both from a safety perspective and a mental perspective. We will engage with our employees to support them within the ambit of the law. Compliance has become a new reality and a key focus of our daily work. Then obviously cost containment, working capital management as well as cash preservation to navigate through these troubled waters will be key for us as a division.

For our Mongolian business we are hopeful that China will ease their COVID restrictions. That will allow the economy to stimulate our region and for us to take full advantage of the current mining boom. And with that, I want to say thank you and hand over to Chris Wierenga.

Chris Wierenga

Thank you, Quinton. Good morning, ladies and gentlemen. I am very pleased to be standing here today to talk to you about the results for Ingrain, which is the platform business that we have acquired as part of our future consumer industries vertical. First off, the bat, I just want to announce that we are looking at five months' results in the comparatives and six months for this year. So, you will see some strong uplifts in revenue and EBITDA over that period as well as the operating profit.

The business has seen some good momentum in these six months. Revenue has come through as a result of increased volumes. We have had favourable commodity prices in the agricultural sector for us, and we have seen a return to bigger volumes in the alcoholic beverages sector. This has allowed EBITDA to rise during the period, and we have also seen good operating profit come through, albeit at a slightly lower margin than what we had seen previously.

We have seen some absorption of working capital in the period, but we remain cash positive despite further investments in the catch-up capex and investing in much-needed critical skills in the business. We should see that working capital position unwind as we price into the second half of this year.

If we look at the revenue mix in the business, it has been stable, but we have seen good growth across the two reporting periods. We are seeing very strong demand in the domestic market. Exports are holding their own, and there is good demand for the product with higher international starch and glucose prices coming through, and our agri products continue to be well received within the animal feed and the pet food sectors, amongst others.

I think if we turn our attention to the key driver for this business, which is the domestic sales volumes, I have mentioned the higher growth in alcoholic beverages. The strong growth in the coffee creamer and confectionary segments is also supporting the business. But generally, our products are seen in multiple sectors, and we have seen very good growth across all of those.

Operationally we are seeing good uplift in operating performances through the four mills. This has largely been through the rollout of the Barloworld Business Systems. We have seen record grind at Kliprivier mill, and that is where we started our BBS journey in June or July last year. Germiston is performing well ahead of expectations, and Meyerton, despite its operating challenges over the six months appears to be well on track to delivering good operating performance in the second half. Bellville continues to perform well and we are expecting to put on a 24/7 fourth shift into that operation, and that will also unlock some further inherent capacity in that business.

If we then just look at our focus areas for the division, safety remains critical. We are a manufacturing organisation, and site safety and behavioural-based safety is important in the business. As a leadership team we are spending a lot of time going out and observing our safety practises and enhancing those and upping the awareness across the business. We are managing cash and our commodity price exposure very carefully in the business. It is being impacted in the current environment, but we should see that translate into good contributions in the second half. As a team we are also focussed on the catchup investments in capex.

On our Barloworld Business System journey we are driving the efficiency improvements. We are focussing heavily on our customer experience in this business, and customer excellence is becoming a central mantra for this business. Our employees remain probably our biggest asset in this business, and changing the culture, moving towards a value-centred approach in the business and thinking long term is critical to our future success. And we are seeing higher employee engagement in this business post the acquisition.

As we look forward a lot of the work that we need to do in this business revolves around sustainable development. We are. A large contributor to the Group's greenhouse gas emissions and energy consumption. And as we think about being a responsible manufacturer, these items need to be addressed and will be a critical focus in terms of our longer-term sustainability objectives for this business. We are then also considering the optimal product portfolio that we have and making sure that we maximise margins and value from the various products that we produce. And there are further efficiencies in the supply chain that we believe we can unlock through better planning and better execution.

As we look forward it is certainly not an easy macro environment for us, but the team is confident, and the business is well positioned to deal with the rising commodity prices that we are seeing. We have secured access to raw material locally and are confident that we will have sufficient stocks available. We are seeing an impact on imported raws that are used in the manufacturing process. We have made sure that we have dual source of supply for those and have enacted various contingency measures to make sure that we can support the business over the next 18, 24 and 36 months.

From an operational excellence perspective BBS is expected to further deliver on results into the second half, as that is gaining a lot of momentum and the cultural changes are coming through nicely. From a growth perspective we do believe that we need to make investments into the organic growth in this business, making sure that we deploy capital efficiently and effectively to deliver on the top line growth.

The market sectors that we serve are certainly looking quite bullish from where we are sitting. Our customers are indicating expansionary capex being sent in their production facilities which will impact the offtake of materials from us. And we are also positioning this business for the acquisitive growth of that consumer industries vertical and making the necessary investments in skills and capacity to grow this vertical in line with the Group's strategy. So, with that, I thank you all and would like to welcome Ramasela to the stage.

Ramasela Ganda
Thank you, Chris. Good morning. Sorry about that. Thank you, Chris. Good morning and thank you for joining us this morning. I will be taking you through our journey as a mobility solutions provider. I will start in March 2020, which is a period predominantly pre-COVID-19, to March 2022. Short-term rental. As you may recall, our journey started with a strategy of right-sizing the business which included the right fleet size, restructuring of the footprint, organisation restructure and integration of the rental and leasing operation.

At the beginning of this financial year there was Omicron virus, fleet shortage due to supply chain constraints, and obviously travel restriction. Despite these challenges, we have taken the opportunity of an increase in the inbound corporate, private and public travel through a very agile operating model and our systems. One will ask, what did the strategy on right-sizing yield? Allow me to take you through.

In March 2020 we delivered revenue of R3.2 billion from used car and rental operations with an average fleet of 38,000. Fast forward to March 2022. We generated revenue of R2.6 billion from a fleet of 23,500. That is an average revenue per vehicle of 111. That is 12% higher than 2021 and 33% higher than pre-COVID level. Year on year revenue marginally improved by 30 basis points. However, that is based on a fleet size that is 10.5% lower. We have delivered a record EBITDA of R731 million with an EBITDA margin of 27.9%. That is dominated by the turnaround in the rental operation.

We continued to apply strict fleet management, dealing with out of service vehicles, having more vehicles in the street than in the workshop. And that is evidenced by our utilisation sitting at 81%. That is 4% up compared to prior year. We have worked on the damage cost, and that has yielded benefit by implementing safety measures such as Avis Safe Drive. Our strategy continues to yield positive results with operating profit surge of 255% compared to prior year. That is more than 100% compared to pre-COVID levels. As you have heard from my colleagues, we from Avis also have benefitted from BBS by deploying the operational excellence methodology that has contributed to the quality of our earnings with operating margins of 15.5%.

Let me take you through the market segment. We provide mobility to a wide spectrum of industries and individual requirements that serves as a natural hedge as the underlying drivers change. In line with our business strategy, the segment mix has been diversified to introduce segments that have different risk profiles. As you may recall, I did indicate last year about the introduction of a subscription model, which clearly has a different risk profile. Subscription model provides customers with mobility where you are at a convenient location and whenever you need it for a minimum of one month. That is where Avis Car Where You Are comes in.

As I also indicated, based on the demand and supply – and as you know there is fleet supply shortage – we manage the business to balance the segment mix that optimises the return. The major contributor, as you can see, is on insurance, which is the replacement business, as well as the subscription. That gives you a relatively longer length of rental, and that is average 23 days in a month. It is important to note that with the gradual increase in the demand for inbound, corporate and public sector the mix as we see it today will change to cater for the growth of the recovery segment. It is important for us that we continue to yield better returns.

Let me take you to the leasing operations. Our fleet management solution is about partnering with private sector ad public sector to assist with productivity and service delivery. Yes, revenue from the leasing operation is 6.7% down. That is compared to prior year. That is driven by natural attrition of major public sector, the City of Johannesburg being one, and the South African Post Office. We continue to actively participate in public sector by responding to requests for proposals.

It is important to note that despite the decline, the average revenue per vehicle increased by 14% compared to prior year, which is testament to the work that we have been doing in driving our value-added products like intelligent fuel management systems, telematics, including focussing on service and maintenance plans which do not require capital outlay. We continued to capture growth in the last mile delivery. All of us know about the growth in the ecommerce industry, and we are providing appropriate vehicle solutions in that as well.

Corporate confidence seems to be on the rise if we compare it with last year. We are receiving requests for new, renewal and even higher value credit facility for replacement and growth. We employ and deploy appropriate skills to manage the fleet throughout its lifecycle. That combined with a strong car rental market has yielded superior return on EBITDA of 52.5% and a 15.3% increase in our operating profit year on year.

Let me take you through the segment. As I have indicated, the proportion of public sector is impacted by the natural attrition of those major contracts. But it is important to note that our corporate sector is very diversified with servicing industries from mining, healthcare, construction, consumer industries just to mention a few. Greater Africa region, as you can see, we have delivered a solid performance with a [unclear] contribution compared to prior period.

This is a very important slide. As I say, this is a period of record results. We have delivered an exceptional return on invested capital of 14.1% on the car rental, which is higher than the Group hurdle rate, and a very strong return on equity of 29.1%. As if the record results are not enough, we now have delivered a very solid return on invested capital on our leasing business of 12.9%, 0.1% shy of the Group hurdle rate. An exceptional return on equity of 56.3%, which is underpinned by us understanding the nature of our business as a financing operation which is commensurate with an optimal capital structure.

Where is our focus going forward? As indicated in the Group strategy to pivot the automotive business, the work has progressed significantly to respond to two possible paths of either sale or unbundle and separate listing. While the work is progressing well, and I am very pleased with the work that the team is doing and the support we're getting from the Group, we remain deliberate about our growth strategy and operational efficiency while having a keen focus on customer experience and employee engagement. As our future beckons, we forge ahead as a trusted mobility solution provider connecting humanity. I thank you, and I will hand over back to the Group CEO.

Dominic Sewela

Tough act to follow, Ramasela. I am just about to do an auction, Bid or Buy. Ladies and gentlemen, I think what you have been seeing, it's a convergence of a strategy that we started five years ago. When we look at the history of the Group interacting with some of the analysts and some of the fund managers, one of the key issues I was hit by was that Barloworld is not a good returning business. We were sitting with revenue of almost R63 billion, but when you looked at the quality of earnings, it was challenged at the time. We were not quite cash generative as we are now focussed.

One of the key issues we lined up was the concept of fix, optimise and growth. We said if we cannot fix the business within a certain timeframe, we will sell it. I think we all remember when we sold Spain because we felt from a timing point of view it couldn't be done. One mistake that I accept, and any leader does accept, is I should have sold Logistics quick enough. I tried to fix it. It was a hard business to fix. But I am glad to say that has been disposed. We are basically in the last throes of selling the supply chain. Automotive, which is motor retail, has been sold.

And when you look at car rental and leasing that's why Ramasela is talking about where we stand in terms of are we selling the business or unbundling it. The truth of the matter for me is where is the value that I can get for this business to give to my shareholders? If somebody gives me a good price and does not try to steal this business away from me, we will look at it. But I guess the best thing is probably to unbundle this business and list it so that shareholders can be able to exercise the right of when they are able to realise value. I think when you listen to Ramasela, the work they are doing basically says it does not matter. It is management that is very focussed on running the business and doing what is right for the business. At the end of the day, the Group will decide what happens thereafter.

I think what you see there for the first time is having Eurasia optimised. The reason it is being optimised, you remember over the last four or five years Eurasia, particularly Russia, has been achieving phenomenal returns and results, and still doing it even to this interim. But the reality of what is ahead of us says we need to focus on optimising this business. And cash preservation becomes very important. Cost containment becomes key, being efficient, but also making sure of the wellbeing of our employees so that we retain our staff. We have invested a lot in that business, so we want to be able to retain the best quality of our staff.

But also taking care of our customers because one thing I am sure of is that however bad a war is, it does end. And when it ends, you need to make sure that as an organisation you are there to be able to continue to do business and you have very good relationships with your customers and your employees. I think, Emmy, well done on that 18% ROIC, but it is something that you need to push ahead further. Chris, the focus in the areas of deploying BBS, I am pleased to say that the strategy is in place.

I think at the end of the day numbers do not lie. And you see us entering year end and us putting up the slides. I am reminded of my former colleague and boss, Peter Bulterman. He used to say, Dom, you never get what you do not measure. Do not expect what you do not inspect. And true to form, part of the reason we put this up to you as investors and to ourselves is that each business should be measured. You can see where we have been. We can talk about 2020 as COVID, but I am proud and happy to see that we did not change WACC. A lot of people will say, Dom, have we changed it? No, we have kept it. At the end of the day what we needed to achieve it to make sure that this business can deliver above our cost of funds. And I am glad to say this has been done.

And when you look at this slide, I never used to talk ROE a lot save for when I interact with a portfolio manager. An ROE for me was a corporate issue that we needed to fix from a corporate point of view in terms of capital structure. Also look at saying how do we allocate capital? You have often heard me say that for me it did not make sense that if I generated a return way below 15%, I then keep the money and then think I'm going to deploy in buying another business which is not generating much.

Our philosophy was to say whilst we did not generate the right return, it makes a lot of sense to buy shares. And to that effect we have done so. To the extent we cannot find an opportunity to buy back shares, we distribute the capital back to the shareholders. I think at this level we are now beginning to earn our right to say if we continue to perform at these levels of returns, we should be able to say we can retain some of the money and allocate better than we think our shareholders could.

I think this is basically the last slide. Barloworld post unbundling of Avis is going to be a two vertical structure. We have created a platform. BBS is working. You have heard everybody talking about BBS. If we are going to acquire businesses, we will be using the same discipline that we are not going to be willy nilly acquiring companies. If we do not find anything exciting, we are not going to try and be smart. We are going to return the money to the shareholders, or we will buy back shares. I will pause here to see if there are any questions.

Nwabisa Piki
Thank you very much. I will try and group the questions by the areas that they cover. I will start on the finance side. the question from Stephan Erasmus asking us to please elaborate on the UK pension fund situation if a special dividend would be coming from that.

Dominic Sewela
I guess remember the pension fund is a liability that we have to the former employees of Barloworld that had a defined benefit in that fund. And that fund had a deficit from time to time, depending on how the assets were invested. We took a decision to say we need to minimise the volatility by engaging in a strategy where we engage the trustees to say probably if we extinguish the liability of that fund, we will have the flexibility to bring the cash back. And thank goodness we paid £68 million in January, and we were able to convince the trustees to rather invest in assets that are not as volatile. Had we not done that now, I tell you the deficit would have been huge.

So, now that we have done that, you are correct. We have agreed with the trustees that it gives us flexibility to bring our capital back. So, we are also looking at basically a buy-in. So, currently we have a process where we are looking at various insurance companies to look at buying in, basically buying the liability from us. The process is on the go. I cannot say much about it because it is too early to be able to give you the position. But once it is done, it certainly gives us flexibility in terms of how we move cash in and out, whether we can lower debt in the UK. I think it is important that I indicate that even though we are sitting with cash in the UK currently, I'm being prudent given the situation in Russia. We will be able to allocate capital like we did of 165 cents a share. But I think any manager when there is time of uncertainty you need to be prudent.

Nwabisa Piki
Thank you. And then several questions along the lines for rental and leasing. Given the strong results and prospects for car rental and leasing, will the Group consider keeping this business rather than listing them separately?

Dominic Sewela
Is that from an employee?

Nwabisa Piki
That is from Imtiaz [?].

Dominic Sewela
Imtiaz, you sound like most of the employees of Avis asking me that question. No, Imtiaz, we are not. I think we are playing a long game. The strategy here was around saying we would not have sold this business in 2020. Remember there was a time when we were going to sell 50% of leasing, but we brought it back in. We said let us bring it in. Let us make sure that we put the strategy in place to grow this business. I think now it is well placed for it to be sold, because whilst this business has certain good attributes under the leadership of Ramasela, I think for Barloworld's strategy long term it will not work.

Once we start fleeting this business, its ability to consume cash when you fleet is high. And our philosophy is to work on cash conversion of nothing less than 50%. So, I do not think long term it would work. So, I think it is right for it to stand on its own so that an investor who sees value in a financial services type of business that is highly geared and generates high return on equity can invest in. I am looking for an investor in Barloworld who will identify with some of the things that we have outlined. Thank you.

Nwabisa Piki
Thank you. I will read the two questions on Russia together because I think they are also common. What is the expected effect on Group ROE from a Russian exclusion? That is Daniel Isaacs. And then Mark Ter Mors wants to know what is the Group WACC with the adjustment to higher cost of capital in Russia?

Dominic Sewela

I do not understand that second one. Do you understand it, Nopasika? Is it when you are talking about the impairment? Let me answer the first one in terms of the ROE. I think when you look at the uncertainty, over the next few months, at an operating level, we are likely going to still deliver at the back of the inventory that is still available. It is not going to be a lot, you know. So, I do not think we are going to shoot the lights out like we did in the second half. You have taken impairment in that environment. So, when you look at the overall impact, I have not finalised modelling the impact, but it is going to impact the ROE somewhat in terms of where we are at September. Nopasika, do you want to respond to that one on WACC?

Nopasika Lila

Yes. If I understand it correctly, what is the Group WACC with the adjustment post Russia? Currently the Group WACC is around 13.7% and we do anticipate that to remain around there, so around 14.1%. That is the number we're looking at.

Nwabisa Piki

Thank you, Nopasika. Can I go on to Ingrain? At what point do higher maize prices hurt operating margins? Are you able to keep passing input costs on to customers?

Dominic Sewela

Okay, Chris.

Chris Wierenga

Thanks for the question. Higher maize prices do translate into price increases for customers. We benchmark our pricing on the import parity of starch and glucose. So, we do try and hedge out the effects of rising and falling maize prices, but essentially rising maize prices do lead to expanded margins for the business.

Nwabisa Piki

Thank you. Over to Equipment Southern Africa. Laurium Capital is looking for helping them to understand why equipment sales in South Africa have been slower than the rest of Africa. What is the South Africa specific constraint? And further, if we can just explain the performance between contract mining and direct mining equipment sales. Contract mining, they say is outperforming.

Emmy Leeka

Thank you. If I look at the deliveries particularly for Southern Africa, we do have a very strong order book for South Africa. Unfortunately, most of the machines that were supposed to be delivered will be delivered in the second half. If you look at what we have delivered in terms of some of the greenfields projects, the project that we spoke about in Botswana, the T3 copper project, we have delivered, and we will continue to finalise some of the deliveries in greater Africa. But it has been our drive to make sure we can be in a position where we see growth in the rest of Africa.

Now, turning to the question regarding contract mining. As we know, we have seen an uplift in terms of the orders to contract mining, which is particularly quite cyclical given the fact that most of the mining houses whenever they want to have a shaving in terms of machines, they will direct machines to contract mining. But as I have indicated, in terms of order book, larger equipment requirements for the second half that we will be delivering. It is coming more so from the mining houses directly as opposed to only from the contract mining. So, they are also capturing opportunities in terms of making sure that with the commodity prices behind them in terms of machine deliveries, it is easier to get contract miners to mobilise and deliver as opposed to larger equipment sizes that take time in terms of the lead times to be delivered. But that swing has changed already. Thank you.

Nwabisa Piki
Thank you, Emmy. Then I am also trying to group a lot of questions on Russia still. There is one from Unathi Kunene asking if the Group is not worried about post-war sanctions on the Russian commodity sector.

Dominic Sewela
Quinton was at pain to explain issues around compliance. It is not for the first time that there have been sanctions in Russia. And maybe, Quinton, just indulge. I know you have done it in terms of the rigour with which you comply, not just only to one regulatory regime. It could be the US sanctions, EU, UK, and countersanctions from Russia itself.

Quinton McGeer
The sanctions are very complex. So, there is a lot of work that is being done daily, as I alluded to. I think we have already screened 8,000 customers, persons, individuals. I think from a sanctions perspective what makes it complicated and why it is difficult to answer the question is that it is constantly evolving. It is constantly changing. I think in the two or three months since the war started, we have already had six rounds. And every round there is a new set of sanctions or restrictions that we need to take into account. So, it is very difficult to answer 100%. But it is also fair to say that Europe is still buying gas daily from the Russians. So, we will have to monitor and see how the situation evolves, and then adapt our strategy accordingly.

Dominic Sewela
Thanks Quinton.

Nwabisa Piki
Thank you very much. I think I will stop there. There are a few questions from a few people that I know we are going to be meeting one-on-one on the line. I think we will address those there. Not too different from the questions that I have asked. So, thank you very much. Over to you, CEO.

Dominic Sewela
Thank you very much, everybody. We hope you keep safe wherever you are. Those that are going to be on the one-on-ones, we hopefully can see some of you there. And thanks for your support. Cheers.

END OF TRANSCRIPT